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COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-9050

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK, CGFM
Assistant Auditor/Controller-Recorder
Assistant County Clerk

May 13, 2008

Ed Kieczykowski, County Librarian
Library Administration Office
104 West Fourth Street
San Bernardino, CA 92415-0035

SUBJECT: AUDIT OF LIBRARY CASH CONTROLS

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a cash controls audit of the County Library. We audited five Library branches: Apple Valley, Big Bear, Chino Hills, Hesperia, and Needles. We also audited the Library's petty cash fund, which was located at the Administration Office. Our audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to $2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of departmental cash funds. Upon demand of ACR or the Board of Supervisors, the fund custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the Internal Controls and Cash Manual (ICCM) for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Scope of Audit

Our overall objective was to determine whether cash handling controls practiced by the Library effectively safeguard cash. Specific audit objectives were to determine whether:

1. The Library properly maintained and secured its change funds.
2. The Library made deposits timely and intact.
3. The Library practiced adequate cashiering controls.
4. The Library properly maintained and secured its petty cash fund.

We reviewed internal controls over cash. Our audit was for the period July 1, 2006 through December 31, 2006 and included surprise cash counts, tests of deposit records, inquiries of staff, observation of library cash handling procedures and other audit procedures considered necessary.

Format of Report

This report is a consolidation of the original audit reports for each of the five branches that were audited—Apple Valley, Big Bear, Chino Hills, Hesperia, and Needles—along with the petty cash audit of Library Administration. Note that each branch's conclusion, findings and recommendations are listed together before the next branch is listed.

APPLE VALLEY LIBRARY

Overall Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Apple Valley Library did not always effectively safeguard cash. We determined that:

1. The library change fund was properly maintained and secured.
2. Deposits were timely and intact.
3. Cashiering controls were not always adequate.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Apple Valley Findings and Recommendations section of this report.

We sent a draft report to the Apple Valley Library on December 12, 2007 and discussed our observations with the branch's management on January 10, 2008. The library's responses to our recommendations are included in this report.

Apple Valley Findings and Recommendations

Finding 1: Lack of Accountability for Cash

Cashiers did not sign for change funds when they took possession of them. At the start of each business day, each cashier should count and sign for the change funds in his/her possession.

In addition, management allowed multiple staff members to work from the same cash drawer. The Library did not have a cashiering system that allowed each cashier to operate a separate cash drawer.

The Library had documented numerous shortages and overages in daily cash receipts. Because employees work from the same cash drawer, management was unable to determine the source of these discrepancies. Therefore, management was unable to take the appropriate actions to reduce daily errors. Furthermore, permitting employees to work from the same cash drawer increases the risk of misappropriation of funds.

Recommendation:

We recommend that Management:

- Modify the current library management system configuration to assign each individual cashier a unique user log-on identification;
- Modify the current library management system configuration to print a separate revenue report for each Cashier logged on to a workstation;
- Assign each employee a separate cash drawer with its own key; and
- Ensure that each employee counts and signs for their cash before beginning their shift.

Management's Response: The Library does not concur.

Technically, each staff member requiring access to cash drawers could be issued discrete access codes, and the system can provide revenue reports identifying cash transactions to a specific staff member. Although much less easy to accommodate, a sufficient number of cash drawers might be developed to allow 3-4 staff members on a given shift to have an individual drawer; this would require significant modification to most circulation desks, however, to accommodate the number of drawers needed. The most serious drawback to the proposal is how the County libraries are staffed. Currently any staff member convenient to the circulation desk is able to instantly step in to perform all needed functions, primarily book checkout and checkin, receive fines as needed, accept payment for printing and providing patron assistance as needed. A library assistant checking out books might receive a question from that patron requiring a trip to the bookshelves, a reference computer or other library service. If other patrons are in line, another staff member must be able to step up to assist the next patron. A major customer service issue will arise, if the library assistant must first sign out of the PC and the next person sign on before being able to help another patron.

An example of the current service point is the Chino Library, which would require 18 individual access codes for its staff. At busier times, 6-8 staff members work in the vicinity of the circulation desk and move in and out as needed, behind the 2 circulation computers. Requiring specific staff only to computers would seriously inhibit service to individual patrons and increase patron service times; any special requests would have to be referred to other staff members who would than have to again determine the patron's needs before providing service. This assignment would also limit the ability of those staff currently signed on, to be able to move to other tasks when no patrons were waiting to checkout.

A significant amount of staff time would also be required at the end of a shift, because each person concluding his work period would be required to count his cash drawer and place the money and total tape in a marked envelope, leaving the drawer with the basic change fund for another person to sign out. All logins and logouts of cash drawers would require supervision and additional forms. At the end of each library day, each person's receipts would have to be counted by another party, with the total entered on another form. When all staff receipts are counted, the total would have to be tallied, to match with the day's Sirsi totals. At the Chino branch, as an example, this might involve 10-12 or more separate sets of cash to count, due to the large number of part-time employees involved.

In conclusion, the library estimates that the additional staff time required to implement the auditor's recommendation would add a minimum of $100,000 per year in staff time in addition to the cost of all of the modifications to its cash handling sites. At an average of $25 of revenue per shift the recommendation is not practical. The Library is working with the County auditor to further expand its customers' ability to pay for services electronically. The library anticipates a reduction in actual cash handling, over the next several years, thus reducing its risk.

Auditor's Response:

The Department's response does not correct or provide a plan to correct any of the deficiencies described in the finding.

Though the office of Auditor/Controller-Recorder understands the reluctance of the Department to modify its current staffing practices, assigning specific staff members to accept receipts would reduce the:

- cost of (or possibly even the need for) additional cash drawers,
- time needed by the cashier to log on and off,
- time needed to train employees in the process of accepting receipts,
- time needed to verify and reconcile the cash at the beginning and end of each cashier's shift, and
- time needed by supervision to reconcile both the individual cashier's drawer and the total receipts against the Sirsi report the following morning.

The office of the Auditor/Controller-Recorder has a responsibility to report any and all deficiencies noted during an audit. While it is the Library's prerogative to determine if the deficiency will be corrected as the ultimate responsibility for assuming the risk remains with the Library, accountability in government is not an option to be chosen by a single department head. Chapter 2 of the Internal Controls and Cash Manual clearly states that "County managers are responsible for safeguarding assets". The manual continues that "Control procedures are effective only in a supportive control environment. The control environment includes such factors as management philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices."

Finding 2: Possession of an Unauthorized Fund

The Library had possession of several unauthorized funds totaling $208.51 in its safe when we conducted a surprise cash count. The funds belonged to the Friends of the Apple Valley Library (FAVL), an agency outside of the County of San Bernardino. The Library uses the money to help pay for small items that are needed.

Per the Internal Controls and Cash Manual on p. 10-2, all cash collected on behalf of an outside agency must be posted to an appropriate fund and revenue source. The funds must be distributed to the outside agency via a FAS Payment Voucher or Request to Draw Warrant form. Amounts must be supported by departmental records. Library staff did not post the cash collected on behalf of the FAVL to an appropriate fund and revenue source. They also did not keep a departmental record of the fund.

All authorized County cash funds are self insured through the Risk Management Department. However, risk Management does not reimburse departments for the loss of unauthorized, non-County funds. Therefore, the Library is taking a risk of non-reimbursement by keeping unauthorized funds in its possession.

Recommendation:

We recommend that the Library return the funds to FAVL. However, if the Library wants to maintain the funds for FAVL, we recommend that Library management request authority from the Board of Supervisors. If the Board grants approval, we also recommend Library management draft policies and procedures in the Library Branch Manual regarding how to maintain a departmental record of the outside agency's fund and communicate those policies to staff.

Management's Response: The Library concurs.

The Library's Branch Manual, Operations Section 2.1 Donations/Purchases states that "All money taken in should be recorded in the appropriate reason in the billing wizard"(this is the money recording feature of the automated circulation system). The branch manager will receive a written memo noting the failure to follow this policy and her future performance in this area will be monitored. The results of the 2006 audits were also discussed at a meeting of all branch managers on January 16, 2008, in which the need to comply with the Library's cash handling procedures was emphasized, and consequences for failures to comply were outlined.

Additionally, wording is to be added to the Branch Manual making this instruction more specific to the holding of non-library funds, including funds which may have been provided to the Library by the Friends of the Library for expenditures but was not expended at once.

However, there may still be emergency situations, in which the overnight securing of a support group's funds may be the most practical and collaborative procedure. This would not include funds designed for discretionary spending, however, but funds collected for a specific project and only awaiting collection by the support group.

Auditor's Response:

The Department's planned actions as well as actions taken correct the deficiencies noted in the finding.

BIG BEAR LIBRARY

Overall Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Big Bear Library did not always effectively safeguard cash.

1. The library change fund was properly maintained and secured.
2. Deposits were timely and intact.
3. Cashiering controls were not always adequate.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Big Bear Findings and Recommendations section of this report.

We sent a draft report to the Big Bear Library on December 12, 2007 and discussed our observation with the branch's management on January 10, 2008. The library's responses to our recommendations are included in this report.

Big Bear Findings and Recommendations

Finding 1: Lack of Accountability for Cash

Cashiers did not sign for change funds when they took possession of them. At the start of each business day, the cashier should count and sign for the change funds in his/her possession.

In addition, management allowed multiple staff members to work from the same cash drawer. The Library did not have a cashiering system that allowed each Cashier to operate a separate cash drawer.

The Library had documented numerous shortages and overages in daily cash receipts. Because employees work from the same cash drawer, management was unable to determine the source of these discrepancies. Therefore, management was unable to take the appropriate actions to reduce daily errors. Furthermore, permitting employees to work from the same cash drawer increases the risk of misappropriation of funds.

Recommendation:

We recommend that Management:

- Modify the current library management system configuration to assign each individual cashier a unique user log-on identification;
- Modify the current library management system configuration to print a separate revenue report for each Cashier logged on to a workstation;
- Assign each employee a separate cash drawer with its own key; and
- Ensure that each employee counts and signs for their cash before beginning their shift.

Management's Response: The Library does not concur.

Technically, each staff member requiring access to cash drawers could be issued discrete access codes, and the system can provide revenue reports identifying cash transactions to a specific staff member. Although much less easy to accommodate, a sufficient number of cash drawers might be developed to allow 3-4 staff members on a given shift to have an individual drawer; this would require significant modification to most circulation desks, however, to accommodate the number of drawers needed. The most serious drawback to the proposal is how the County libraries are staffed. Currently any staff member convenient to the circulation desk is able to instantly step in to perform all needed functions, primarily book checkout and checkin, receive fines as needed, accept payment for printing and providing patron assistance as needed. A library assistant checking out books might receive a question from that patron requiring a trip to the bookshelves, a reference computer or other library service. If other patrons are in line, another staff member must be able to step up to assist the next patron. A major customer service issue will arise, if the library assistant must first sign out of the PC and the next person sign on before being able to help another patron.

An example of the current service point is the Chino Library, which would require 18 individual access codes for its staff. At busier times, 6-8 staff members work in the vicinity of the circulation desk and move in and out as needed, behind the 2 circulation computers. Requiring specific staff only to computers would seriously inhibit service to individual patrons and increase patron service times; any special requests would have to be referred to other staff members who would than have to again determine the patron's needs before providing service. This assignment would also limit the ability of those staff currently signed on, to be able to move to other tasks when no patrons were waiting to checkout.

A significant amount of staff time would also be required at the end of a shift, because each person concluding his work period would be required to count his cash drawer and place the money and total tape in a marked envelope, leaving the drawer with the basic change fund for another person to sign out. All logins and logouts of cash drawers would require supervision and additional forms. At the end of each library day, each person's receipts would have to be counted by another party, with the total entered on another form. When all staff receipts are counted, the total would have to be tallied, to match with the day's Sirsi totals. At the Chino branch, as an example, this might involve 10-12 or more separate sets of cash to count, due to the large number of part-time employees involved.

In conclusion, the library estimates that the additional staff time required to implement the auditor's recommendation would add a minimum of $100,000 per year in staff time in addition to the cost of all of the modifications to its cash handling sites. At an average of $25 of revenue per shift the recommendation is not practical. The Library is working with the County auditor to further expand its customers' ability to pay for services electronically. The library anticipates a reduction in actual cash handling, over the next several years, thus reducing its risk.

Auditor's Response:

The Department's response does not correct or provide a plan to correct any of the deficiencies described in the finding.

Though the office of Auditor/Controller-Recorder understands the reluctance of the Department to modify its current staffing practices, assigning specific staff members to accept receipts would reduce the:

- cost of (or possibly even the need for) additional cash drawers,
- time needed by the cashier to log on and off,
- time needed to train employees in the process of accepting receipts,
- time needed to verify and reconcile the cash at the beginning and end of each cashier's shift, and
- time needed by supervision to reconcile both the individual cashier's drawer and the total receipts against the Sirsi report the following morning.

The office of the Auditor/Controller-Recorder has a responsibility to report any and all deficiencies noted during an audit. While it is the Library's prerogative to determine if the deficiency will be corrected as the ultimate responsibility for assuming the risk remains with the Library, accountability in government is not an option to be chosen by a single department head. Chapter 2 of the Internal Controls and Cash Manual clearly states that "County managers are responsible for safeguarding assets". The manual continues that "Control procedures are effective only in a supportive control environment. The control environment includes such factors as management philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices."

Finding 2: Possession of an Unauthorized Fund

The Library had possession of an unauthorized petty cash fund of $100.00 in its safe when we conducted a surprise cash count. The Friends of Big Bear Valley Library (FBBVL), an agency outside of the County of San Bernardino, provided the petty cash fund to the Library. The Library uses the money to help pay for small items that are needed. The Library Manager stated that it was difficult to obtain reimbursements from the Library's administrative office when their branch incurred petty cash expenses due to their location. The Library also had $90.00 in ticket sales that it collected for a FBBVL fundraiser in the safe at the time of the surprise cash count.

Per the Internal Controls and Cash Manual on p. 10-2, all cash collected on behalf of an outside agency must be posted to an appropriate fund and revenue source. The funds must be distributed to the outside agency via a FAS Payment Voucher or Request to Draw Warrant form. Amounts must be supported by departmental records. Library staff did not post the cash collected on behalf of the FBBVL to an appropriate fund and revenue source. They also did not keep a departmental record of the fund.

All authorized County cash funds are self insured through the Risk Management Department. However, risk Management does not reimburse departments for the loss of unauthorized, non-County funds. Therefore, the Library is taking a risk of non-reimbursement by keeping unauthorized funds in its possession.

Recommendation:

We recommend that the Library return the funds to FBBVL. However, if the Library wants to maintain the funds for FBBVL, we recommend that Library management request authority from the Board of Supervisors. If the Board grants approval, we also recommend Library management draft policies and procedures in the Library Branch Manual regarding how to maintain a departmental record of the outside agency's fund and communicate those policies to staff.

Management's Response: The Library concurs.

The Library's Branch Manual, Operations Section 2.1 Donations/Purchases states that "All money taken in should be recorded in the appropriate reason in the billing wizard"(this is the money recording feature of the automated circulation system). The branch manager will receive a written memo noting the failure to follow this policy and her future performance in this area will be monitored. The results of the 2006 audits were also discussed at a meeting of all branch managers on January 16, 2008, in which the need to comply with the Library's cash handling procedures was emphasized, and consequences for failures to comply were outlined.

Additionally, wording is to be added to the Branch Manual making this instruction more specific to the holding of non-library funds, including funds which may have been provided to the Library by the Friends of the Library for expenditures but was not expended at once.

However, there may still be emergency situations, in which the overnight securing of a support group's funds may be the most practical and collaborative procedure. This would not include funds designed for discretionary spending, however, but funds collected for a specific project and only awaiting collection by the support group.

Auditor's Response:

The Department's planned actions as well as actions taken correct the deficiencies noted in the finding.

CHINO HILLS LIBRARY

Overall Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Chino Hills Library did not always effectively safeguard cash.

1. The library change fund was properly maintained but not secured.
2. Deposits were timely and intact.
3. Cashiering controls were not always adequate.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Chino Hills Findings and Recommendations section of this report.

We sent a draft report to the Chino Hills Library on December 18, 2007 and discussed our observation with the branch's management on January 10, 2008. The library's responses to our recommendations are included in this report.

Chino Hills Findings and Recommendations

Finding 1: Lack of Accountability for Cash

Cashiers did not sign for change funds when they took possession of them. At the start of each business day, the cashier should count and sign for the change funds in his/her possession.

We also found that multiple staff members worked from the same cash drawer, and Cashier's did not secure cash drawers when unattended. Specifically, cabinets holding cash drawers did not have locks on them to properly safeguard the cash.

The library had documented numerous shortages and overages in daily cash receipts. Because employees work from the same cash drawer, management was unable to determine the source of these discrepancies. Therefore, management was unable to take the appropriate actions to reduce daily errors. Furthermore, permitting employees to work from the same cash drawer, and allowing cashiers to leave cash drawers unlocked when unattended increases the risk of misappropriation of funds.

Recommendation:

We recommend that Management:

- Modify the current library management system configuration to assign each individual cashier a unique user log-on identification;
- Modify the current library management system configuration to print a separate revenue report for each Cashier logged on to a workstation;
- Assign each employee a separate cash drawer with its own key; and

Ensure that each employee counts and signs for their cash before beginning their shift.

Management's Response: The Library does not concur.

Technically, each staff member requiring access to cash drawers could be issued discrete access codes, and the system can provide revenue reports identifying cash transactions to a specific staff member. Although much less easy to accommodate, a sufficient number of cash drawers might be developed to allow 3-4 staff members on a given shift to have an individual drawer; this would require significant modification to most circulation desks, however, to accommodate the number of drawers needed. The most serious drawback to the proposal is how the County libraries are staffed. Currently any staff member convenient to the circulation desk is able to instantly step in to perform all needed functions, primarily book checkout and checkin, receive fines as needed, accept payment for printing and providing patron assistance as needed. A library assistant checking out books might receive a question from that patron requiring a trip to the bookshelves, a reference computer or other library service. If other patrons are in line, another staff member must be able to step up to assist the next patron. A major customer service issue will arise, if the library assistant must first sign out of the PC and the next person sign on before being able to help another patron.

An example of the current service point is the Chino Library, which would require 18 individual access codes for its staff. At busier times, 6-8 staff members work in the vicinity of the circulation desk and move in and out as needed, behind the 2 circulation computers. Requiring specific staff only to computers would seriously inhibit service to individual patrons and increase patron service times; any special requests would have to be referred to other staff members who would than have to again determine the patron's needs before providing service. This assignment would also limit the ability of those staff currently signed on, to be able to move to other tasks when no patrons were waiting to checkout.

A significant amount of staff time would also be required at the end of a shift, because each person concluding his work period would be required to count his cash drawer and place the money and total tape in a marked envelope, leaving the drawer with the basic change fund for another person to sign out. All logins and logouts of cash drawers would require supervision and additional forms. At the end of each library day, each person's receipts would have to be counted by another party, with the total entered on another form. When all staff receipts are counted, the total would have to be tallied, to match with the day's Sirsi totals. At the Chino branch, as an example, this might involve 10-12 or more separate sets of cash to count, due to the large number of part-time employees involved.

In conclusion, the library estimates that the additional staff time required to implement the auditor's recommendation would add a minimum of $100,000 per year in staff time in addition to the cost of all of the modifications to its cash handling sites. At an average of $25 of revenue per shift the recommendation is not practical. The Library is working with the County auditor to further expand its customers' ability to pay for services electronically. The library anticipates a reduction in actual cash handling, over the next several years, thus reducing its risk.

Auditor's Response:

The Department's response does not correct or provide a plan to correct any of the deficiencies described in the finding.

Though the office of Auditor/Controller-Recorder understands the reluctance of the Department to modify its current staffing practices, assigning specific staff members to accept receipts would reduce the:

- cost of (or possibly even the need for) additional cash drawers,
- time needed by the cashier to log on and off,
- time needed to train employees in the process of accepting receipts,
- time needed to verify and reconcile the cash at the beginning and end of each cashier's shift, and
- time needed by supervision to reconcile both the individual cashier's drawer and the total receipts against the Sirsi report the following morning.

The office of the Auditor/Controller-Recorder has a responsibility to report any and all deficiencies noted during an audit. While it is the Library's prerogative to determine if the deficiency will be corrected as the ultimate responsibility for assuming the risk remains with the Library, accountability in government is not an option to be chosen by a single department head. Chapter 2 of the Internal Controls and Cash Manual clearly states that "County managers are responsible for safeguarding assets". The manual continues that "Control procedures are effective only in a supportive control environment. The control environment includes such factors as management philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices."

Finding 2: Safe Access not Limited

Library management had not changed the safe combination in accordance with the ICCM. The policy states that Management must change the safe combination when any employee with knowledge of the combination terminates employment, transfers to another department, or changes duties. In addition, branch management must change the combination at least annually.

If library management does not change the safe combination, unauthorized persons can gain access to the safe and misappropriate cash.

Recommendation:

We recommend that the Branch Manager change the safe combination when an employee is terminated, transferred to another department or changes duties or at least annually.

Management's Response: The Library concurs.

When the initial library audits took place, and staff was reminded of the need to change combinations per the guidelines in the Internal Controls and Cash Handling Manual, the Library promulgated the specific requirements in a memo to all branch managers on 15 Nov 2006, requiring both annual changes of combinations and changes upon termination of any staff member with the combination. Additionally, one branch manager has been delegated to compile and maintain a spreadsheet including all branches and the latest date of all safe combination changes, to provide management with appropriately current information. Some delays in combination changes occurred due to the inability of some locksmiths to change combinations on the type of safe purchased for the libraries. A reliable vendor has been determined who is available to work in all library locations, so this will not be a problem in the future.

Auditor's Response:

The Department's planned actions as well as actions taken correct the deficiencies noted in the finding.

HESPERIA LIBRARY

Overall Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Hesperia Library did not always effectively safeguard cash.

1. The library change fund was properly maintained and secured.

2. Deposits were timely and intact.

3. However, cashiering controls were not always adequate.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Hesperia Findings and Recommendations section of this report.

We sent a draft report to the Hesperia Library on December 12, 2007 and discussed our observations with the branch's management on January 10, 2008. The library's responses to our recommendations are included in this report.

Hesperia Findings and Recommendations

Finding 1: Lack of Accountability for Cash

Cashiers did not sign for change funds when they took possession of them. At the start of each business day, each cashier should count and sign for the change funds in his/her possession.

In addition, management allowed multiple staff members to work from the same cash drawer. The Library did not have a cashiering system that allowed each Cashier to operate a separate cash drawer.

The Library had documented numerous shortages and overages in daily cash receipts. Because employees work from the same cash drawer, management was unable to determine the source of these discrepancies. Therefore, management was unable to take the appropriate actions to reduce daily errors. Furthermore, permitting employees to work from the same cash drawer increases the risk of misappropriation of funds.

Recommendation:

We recommend that Management:

- Modify the current library management system configuration to assign each individual cashier a unique user log-on identification;
- Modify the current library management system configuration to print a separate revenue report for each Cashier logged on to a workstation;
- Assign each employee a separate cash drawer with its own key; and
- Ensure that each employee counts and signs for their cash before beginning their shift.

Management's Response: The Library does not concur.

Technically, each staff member requiring access to cash drawers could be issued discrete access codes, and the system can provide revenue reports identifying cash transactions to a specific staff member. Although much less easy to accommodate, a sufficient number of cash drawers might be developed to allow 3-4 staff members on a given shift to have an individual drawer; this would require significant modification to most circulation desks, however, to accommodate the number of drawers needed. The most serious drawback to the proposal is how the County libraries are staffed. Currently any staff member convenient to the circulation desk is able to instantly step in to perform all needed functions, primarily book checkout and checkin, receive fines as needed, accept payment for printing and providing patron assistance as needed. A library assistant checking out books might receive a question from that patron requiring a trip to the bookshelves, a reference computer or other library service. If other patrons are in line, another staff member must be able to step up to assist the next patron. A major customer service issue will arise, if the library assistant must first sign out of the PC and the next person sign on before being able to help another patron.

An example of the current service point is the Chino Library, which would require 18 individual access codes for its staff. At busier times, 6-8 staff members work in the vicinity of the circulation desk and move in and out as needed, behind the 2 circulation computers. Requiring specific staff only to computers would seriously inhibit service to individual patrons and increase patron service times; any special requests would have to be referred to other staff members who would than have to again determine the patron's needs before providing service. This assignment would also limit the ability of those staff currently signed on, to be able to move to other tasks when no patrons were waiting to checkout.

A significant amount of staff time would also be required at the end of a shift, because each person concluding his work period would be required to count his cash drawer and place the money and total tape in a marked envelope, leaving the drawer with the basic change fund for another person to sign out. All logins and logouts of cash drawers would require supervision and additional forms. At the end of each library day, each person's receipts would have to be counted by another party, with the total entered on another form. When all staff receipts are counted, the total would have to be tallied, to match with the day's Sirsi totals. At the Chino branch, as an example, this might involve 10-12 or more separate sets of cash to count, due to the large number of part-time employees involved.

In conclusion, the library estimates that the additional staff time required to implement the auditor's recommendation would add a minimum of $100,000 per year in staff time in addition to the cost of all of the modifications to its cash handling sites. At an average of $25 of revenue per shift the recommendation is not practical. The Library is working with the County auditor to further expand its customers' ability to pay for services electronically. The library anticipates a reduction in actual cash handling, over the next several years, thus reducing its risk.

Auditor's Response:

The Department's response does not correct or provide a plan to correct any of the deficiencies described in the finding.

Though the office of Auditor/Controller-Recorder understands the reluctance of the Department to modify its current staffing practices, assigning specific staff members to accept receipts would reduce the:

- cost of (or possibly even the need for) additional cash drawers,
- time needed by the cashier to log on and off,
- time needed to train employees in the process of accepting receipts,
- time needed to verify and reconcile the cash at the beginning and end of each cashier's shift, and
- time needed by supervision to reconcile both the individual cashier's drawer and the total receipts against the Sirsi report the following morning.

The office of the Auditor/Controller-Recorder has a responsibility to report any and all deficiencies noted during an audit. While it is the Library's prerogative to determine if the deficiency will be corrected as the ultimate responsibility for assuming the risk remains with the Library, accountability in government is not an option to be chosen by a single department head. Chapter 2 of the Internal Controls and Cash Manual clearly states that "County managers are responsible for safeguarding assets". The manual continues that "Control procedures are effective only in a supportive control environment. The control environment includes such factors as management philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices."

Finding 2: Possession of an Unauthorized Fund

The Library had possession of an unauthorized fund of $263.71 in its safe when we conducted a surprise cash count. The fund belonged to the City of Hesperia, an agency outside the County of San Bernardino. After we brought it to Library staff's attention, they transferred the money to the City of Hesperia.

Per the Internal Controls and Cash Manual on p. 10-2, all cash collected on behalf of an outside agency must be posted to an appropriate fund and revenue source. The funds must be distributed to the outside agency via a FAS Payment Voucher or Request to Draw Warrant form. Amounts must be supported by departmental records. Library staff did not post the cash collected on behalf of the City of Hesperia to an appropriate fund and revenue source. They also did not keep a departmental record of the fund. Library staff stated that they were unaware of the policy.

All authorized County cash funds are self insured through the Risk Management department. However, Risk Management does not reimburse departments for the loss of unauthorized, non-County funds. Therefore, the Library is taking a risk of non-reimbursement by keeping unauthorized funds in its possession.

Recommendation:

We recommend that the Library not maintain any funds for outside agencies. However, if the Hesperia branch wants to maintain funds for outside agencies, we recommend that Library management request authority from the Board of Supervisors. If the Board grants approval, we also recommend Library management draft policies and procedures in the Library Branch Manual regarding how to maintain a departmental record of the outside agency's funds and communicate those policies to staff.

Management's Response: The Library concurs.

The Library's Branch Manual, Operations Section 2.1 Donations/Purchases states that "All money taken in should be recorded in the appropriate reason in the billing wizard"(this is the money recording feature of the automated circulation system). The branch manager will receive a written memo noting the failure to follow this policy and her future performance in this area will be monitored. The results of the 2006 audits were also discussed at a meeting of all branch managers on January 16, 2008, in which the need to comply with the Library's cash handling procedures was emphasized, and consequences for failures to comply were outlined.

Additionally, wording is to be added to the Branch Manual making this instruction more specific to the holding of non-library funds, including funds which may have been provided to the Library by the Friends of the Library for expenditures but was not expended at once.

However, there may still be emergency situations, in which the overnight securing of a support group's funds may be the most practical and collaborative procedure. This would not include funds designed for discretionary spending, however, but funds collected for a specific project and only awaiting collection by the support group.

Auditor's Response:

The Department's planned actions as well as actions taken correct the deficiencies noted in the finding.

Finding 3: Lack of Segregation of Duties

The employee who performed cashiering duties also maintained records, made deposits and reviewed the record of the cash count. The Library manager did not enforce the policy documented in the Library Branch Manual and in the Internal Controls and Cash Manual.

Allowing one person to have access to the entire cash process increases the risk that cash will be misappropriated and concealed.

Recommendation:

We recommend that the Library Branch Manager:

- Ensure that all employees are following County and departmental policy;
- Ensure the employee collecting cash receipts counts his/her money and completes and initials the Daily Money Report; and,
- Review and initial the Daily Money Reports.

Management's Response: The Library concurs.

The procedures in the Branch Manual were written to comply with the guidelines in the Internal Controls and Cash Manual, and all branch managers have been given specific instructions to adhere to those procedures. The branch manager will receive a written memo documenting the failure to comply with Library and County cash handling procedures, and management will follow up to ensure that those procedures are followed.

As noted in the Response to Finding #2 above, at the January 16, 2008 meeting of all branch managers, the need to comply with all procedures in the Library's Branch Manual were re-emphasized, including having more than one person involved in counting and verifying receipts, with consequences for failure to comply outlined.

Auditor's Response:

The Department's actions taken correct the deficiencies noted in the finding.

NEEDLES LIBRARY

Overall Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Needles Library did not always effectively safeguard cash.

1. The library change fund was properly maintained but not adequately secured.
2. Deposits were timely but were not intact.
3. Cashiering controls were not adequate.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Needles Findings and Recommendations section in this report.

We sent a draft report to the Needles Library on December 12, 2007 and discussed our observation with the branch's management on January 10, 2008. The library's responses to our recommendations are included in this report.

Needles Findings and Recommendations

Finding 1: Lack of Accountability for Cash

Cashiers did not sign for change funds when they took possession of them. At the start of each business day, the cashier should count and sign for the change funds in his/her possession.

In addition, management allowed multiple staff members to work from the same cash drawer. The Library did not have a cashiering system that allowed each cashier to operate a separate cash drawer.

Because employees worked from the same cash drawer, management was unable to take the appropriate actions to reduce daily errors. Furthermore, permitting employees to work from the same cash drawer increases the risk of misappropriation of funds.

Recommendation:

We recommend that Management:

- Modify the current library management system configuration to assign each individual cashier a unique user log-on identification;
- Modify the current library management system configuration to print a separate revenue report for each Cashier logged on to a workstation;
- Assign each employee a separate cash drawer with its own key; and
- Ensure that each employee counts and signs for their cash before beginning their shift.

Management's Response: The Library does not concur.

Technically, each staff member requiring access to cash drawers could be issued discrete access codes, and the system can provide revenue reports identifying cash transactions to a specific staff member. Although much less easy to accommodate, a sufficient number of cash drawers might be developed to allow 3-4 staff members on a given shift to have an individual drawer; this would require significant modification to most circulation desks, however, to accommodate the number of drawers needed. The most serious drawback to the proposal is how the County libraries are staffed. Currently any staff member convenient to the circulation desk is able to instantly step in to perform all needed functions, primarily book checkout and checkin, receive fines as needed, accept payment for printing and providing patron assistance as needed. A library assistant checking out books might receive a question from that patron requiring a trip to the bookshelves, a reference computer or other library service. If other patrons are in line, another staff member must be able to step up to assist the next patron. A major customer service issue will arise, if the library assistant must first sign out of the PC and the next person sign on before being able to help another patron.

An example of the current service point is the Chino Library, which would require 18 individual access codes for its staff. At busier times, 6-8 staff members work in the vicinity of the circulation desk and move in and out as needed, behind the 2 circulation computers. Requiring specific staff only to computers would seriously inhibit service to individual patrons and increase patron service times; any special requests would have to be referred to other staff members who would than have to again determine the patron's needs before providing service. This assignment would also limit the ability of those staff currently signed on, to be able to move to other tasks when no patrons were waiting to checkout.

A significant amount of staff time would also be required at the end of a shift, because each person concluding his work period would be required to count his cash drawer and place the money and total tape in a marked envelope, leaving the drawer with the basic change fund for another person to sign out. All logins and logouts of cash drawers would require supervision and additional forms. At the end of each library day, each person's receipts would have to be counted by another party, with the total entered on another form. When all staff receipts are counted, the total would have to be tallied, to match with the day's Sirsi totals. At the Chino branch, as an example, this might involve 10-12 or more separate sets of cash to count, due to the large number of part-time employees involved.

In conclusion, the library estimates that the additional staff time required to implement the auditor's recommendation would add a minimum of $100,000 per year in staff time in addition to the cost of all of the modifications to its cash handling sites. At an average of $25 of revenue per shift the recommendation is not practical. The Library is working with the County auditor to further expand its customers' ability to pay for services electronically. The library anticipates a reduction in actual cash handling, over the next several years, thus reducing its risk.

Auditor's Response:

The Department's response does not correct or provide a plan to correct any of the deficiencies described in the finding.

Though the office of Auditor/Controller-Recorder understands the reluctance of the Department to modify its current staffing practices, assigning specific staff members to accept receipts would reduce the:

- cost of (or possibly even the need for) additional cash drawers,
- time needed by the cashier to log on and off,
- time needed to train employees in the process of accepting receipts,
- time needed to verify and reconcile the cash at the beginning and end of each cashier's shift, and
- time needed by supervision to reconcile both the individual cashier's drawer and the total receipts against the Sirsi report the following morning.

The office of the Auditor/Controller-Recorder has a responsibility to report any and all deficiencies noted during an audit. While it is the Library's prerogative to determine if the deficiency will be corrected as the ultimate responsibility for assuming the risk remains with the Library, accountability in government is not an option to be chosen by a single department head. Chapter 2 of the Internal Controls and Cash Manual clearly states that "County managers are responsible for safeguarding assets". The manual continues that "Control procedures are effective only in a supportive control environment. The control environment includes such factors as management philosophy and operating style, organizational structure, methods of assigning authority and responsibility, and personnel policies and practices."

Finding 2: Inadequate safeguarding of Cash

Library Staff stored one of the Library's cash boxes on a shelf in a room overnight. They stored the only other cash box in a desk on the Bookmobile overnight. The Bookmobile is a vehicle designed for use as a mobile library, which was parked next to the library after hours. The Library's safe was not large enough to hold both cash boxes. In addition, the safe was in a room that the public can access during business hours.

The Library should place all cash held overnight in a safe. Otherwise, the Library increases the risk of theft occurring. Further, the safe should be located in a secure area away from the public.

The cash box that the cashiers used during business hours did not have a lock. Since the check out area did not have any cabinets to hold a cash drawer, the cash box was located behind the checkout counter on a shelf when it was not in use.

To prevent misappropriation of cash, cashiers should have a locking file cabinet available and should always keep their cash drawers locked when left unattended.

Recommendation:

We recommend the Branch Manager:

- Purchase a safe or locked file cabinet large enough to hold the cash boxes or take the cash from the cash boxes and place it, without commingling it, into the existing safe overnight;
- Move the safe into the Manager's office or in an area away from the public;
- Install cabinets, a cash drawer, or some alternate mechanism to keep cash in a location that is not accessible to unauthorized persons during business hours; and
- Ensure cashiers lock the cash drawer when not in use.

Management's Response: The Library concurs.

The Branch Manual Operations Section 2.4 Daily Closeout states that following the counting of money and recording of the counts, "All money must then be placed in a secure site, such as a safe or locked cabinet." Branch managers have been advised in the past by memo to have some form of locking mechanism on cash drawers in the service areas, especially when these service points cannot be continually staffed. The branch manager will receive a memo noting the failure to follow Library policy on cash handling, and will be instructed to arrange for the cash drawer to be lockable, and be kept locked between uses.

Although the public may have some form of access to its location, this should not represent a significant security risk if the safe is locked. However, the location of the safe will be reviewed.

A contractor has been located and is in the process of installing a locking cash drawer on the circulation desk. This installation is estimated at completion by June 2008.

Auditor's Response:

The Department's planned actions as well as actions taken correct deficiencies noted in the finding.

Finding 3: Inadequate Deposit Procedures

The Branch Manager withheld small amounts of cash from the weekly deposits. However, the cash was deposited with subsequent revenues. The Manager stated that the extra cash was necessary to make change for customers on the weekends, because the banks in the area were not open.

Daily deposits should consist of the same currency that the Library originally collected. If management does not deposit cash receipts intact, it is difficult to maintain proper revenue records.

Recommendation:

We recommend that the Branch Manager deposit all cash receipts intact, as required by County policy.

Management's Response: The Library concurs.

The Library Branch Manual, Operations Section 2.6 Deposits outlines deposit requirements. The Daily Money Report form includes a "Deposits" column alongside the total receipts column, to enable simple reconciliation of receipts for a day or several days (in smaller branches), and amount deposited. The basic change fund should not be affected by deposits, and there should be no need to withhold receipts from deposits to accommodate weekend change requirements. The memo to the branch manager noted in the Response to Recommendation #2 above will include the admonition to deposit all receipts, retaining only the authorized change fund.

Auditor's Response:

The Department's actions taken correct the deficiencies noted in the finding.

Finding 4: Receipts Not Always Issued

During the course of our audit, some cashiers did not issue a receipt to every patron for payments received. The Library does not have a policy to give receipts to all customers. Additionally, the prior Branch Manager trained the current Branch Manager to keep receipts to balance the library's books.

Cashiers should always issue receipts to patrons for any monies received. If cashiers do not issue receipts, they may misappropriate cash by retaining payments. In addition, revenue may be understated.

Recommendation:
We recommend that the Branch Manager use the online SIRSI Money Report to verify daily revenues earned as required by Library policy. We also recommend that the Branch Manager draft a formal policy that requires staff to issue receipts to patrons for any monies received and communicate that policy to all staff.

Management's Response: The Library concurs.

Although the Library Branch Manual does not currently specifically direct staff to provide transaction receipts, receipts are printed automatically for all transactions at all library branches' circulation desks. It has been standard practice to provide these receipts to patrons to record books checked out and fines paid. An addition to the Branch Manual is being prepared to specifically require that receipts be provided to all patrons. Also, the memo to the Branch Manager noted in the Response to Recommendation #2 above will include this direction.

Auditor's Response:

The Department's planned actions as well as actions taken correct the deficiencies noted in the finding.

LIBRARY ADMINISTRATION (PETTY CASH)

Overall Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the Library Administration Office did not always effectively safeguard cash. The Library did not properly maintain its petty cash fund.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Library Administration Findings and Recommendations section of this report.

We sent a draft report to the Library Administration Office on December 18, 2007 and discussed our observation with the branch's management on January 10, 2008. The library's responses to our recommendations are included in this report.

Library Administration Findings and Recommendations

Finding 1: Lack of Accountability for Cash

Library Staff had not reconciled the Library's petty cash bank account in over three years. This was due to a lack of management oversight of staff duties. The Library must reconcile its petty cash fund periodically by an employee other than the Fund Custodian. This independent review will ensure that the library has correctly recorded petty cash transactions.

During our review of petty cash records, the petty cash fund appeared to have been $750.00 over the $2,500 authorized amount. However, since no one in the Library Administration Office reconciled the petty cash bank account, there may have been outstanding checks recorded in the balance. Therefore, the true balance of the fund was impossible to determine without an accompanying reconciliation. Because of the lack of reconciliation, library management was unable to detect and resolve the inaccurate balance.

Recommendation:

We recommend that the Library's Staff Analyst perform a monthly reconciliation of the Library's petty cash bank account. We also recommend that Library management ensure that the Staff Analyst performs a monthly reconciliation by performing a supervisory review of the reconciliation.

Management's Response: The Library concurs.

The Staff Analyst is completing the retrospective reconciliation with a deadline for completion by the end of March, and subsequently he will be performing a monthly reconciliation, with a supervisory reconciliation to be performed by the Assistant County Librarian. The previous reconciliation routine was interrupted with a change of personnel, but that situation has been rectified.

The apparent overage of $750 will be verified or adjusted based upon the results of the reconciliation, and the amount of any unreconciled overages will be forwarded to ACR for recommendations on disposition.

Auditor's Response:

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: ______________________
Howard Ochi, CPA
Chief Deputy Auditor
Internal Audits Section

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